

ADMINISTRATION AND FINANCE COMMITTEE

DATE: June 27, 2006

CALLED TO ORDER: 5:06 p.m.

ADJOURNED: 6:35 p.m.

ATTENDANCE

Attending Members

Joanne Sanders, Chair
Lynn McWhirter
Jackie Nytes
Lincoln Plowman
Steve Talley

Absent Members

Vernon Brown
Lance Langsford

AGENDA

PROPOSAL NO. 363, 2006 - enables the Controller to reserve a percentage of county agency funding out of the County General Fund
"Do Pass as Amended" Vote 3-2

Overview of the forthcoming budget process – presented by Robert Clifford, City Controller

ADMINISTRATION AND FINANCE COMMITTEE

The Administration and Finance Committee of the City-County Council met on Tuesday, June 13, 2006. Chair Joanne Sanders called the meeting to order at 5:06 p.m. with the following members present: Lynn McWhirter, Jackie Nytes, Lincoln Plowman, and Steve Talley. Absent were Vernon Brown and Lance Langsford.

Chair Sanders asked the Committee for consent to hear the presentation before hearing Proposal No. 363, 2006, as some of the information included in the overview will be part of the explanation for the proposal. Consent was given.

Overview of the forthcoming budget process – presented by Robert Clifford, City Controller

Mr. Clifford presented a report (Exhibit A) on where the City is headed with the 2007 budget, which included the following key points:

- Summary of expenditure by fund group
 - The City is mostly a tax-supported entity, as most revenues are received from tax-based funds.
- Summary of recent expenditures by function
 - The Public Safety and Criminal Justice (PSCJ) agency is becoming a larger part of the budget due to jail overcrowding and crime.
 - Executive, Legislative and Administrative agencies are becoming a smaller part of the budget.
 - The \$15 million that came into the city and county this year because of the one-tenth of 1% increase in the County Option Income Tax (COIT) all went toward PSCJ.
- Expenditures by function
 - PSCJ is now approximately 59% of the budget, and is anticipated to rise to approximately 62% to 63% for 2007.
- Expenditures by character
 - 60% of costs are going toward Character 01 expenditures, which include salaries, group insurance, pension costs, unemployment benefits, and other benefits.
 - Character 01 expenditures reflect that civil employees have not had salary increases in three years, as they are not represented in a bargaining unit.
- Revenues and other funding by source
 - About 50% of the City's revenue comes from property taxes.
 - Fifteen percent comes from COIT, on which the City relies heavily.
 - The remainder comes from fees, licenses, and other tax revenues.
- 2005 Property tax rates
 - This shows (reference to power point presentation) the percentage of each dollar paid in property taxes.
 - Forty-nine percent of the total for Center Township is given to schools. The percentage is slightly higher in some townships and faster growing suburban areas.

- County-wide assessed value (AV) from 1995-2006
 - There was a steady climb from 1995-2001
 - There was a reassessment in 2002 that reflects a fairly substantial increase in assessed valuation, in which the City and County decreased the tax rates to accommodate for the increase.
 - The new assessment laws have caused some decline.
 - The 2006 assessment reflects the 5.5% reduction in AV that will be caused from the loss of the inventory tax.
- Growth in AV compared to growth in PSCJ and Child Services expenditures
 - Funding for PSCJ has been the City's fastest growing expense and AV, which is the basis for property taxes, has been declining.
 - Child services expenses are also growing.
- Major challenges and expected budget impact
 - Biggest challenges will be funding for the police and fire pensions including pre 1977 pension plan
 - There are currently 2,000 Firefighters and Police Officers receiving pensions from the unfunded pension plan, which results in two portions being distributed at the same time for current and retired personnel.
 - Prior to 1977, no money was set aside for rural police districts.
 - There are plans to add back the 48 officers that were not included in the 2006 budget and to get the police levels back to 1,232.
 - There are also plans for additional Firefighters.
 - Other challenges include additional funding for youth manager salaries, 125 additional jail beds in 2006 and 2007, and additional infirmary beds.
 - The elimination of inventory tax revenue from AV will cost the City and the County around \$22 million a year in lost revenues.
 - The child services funding continues to increase annually.
- The Controller's Office has had incredible cooperation from city and county agencies on getting information put into DPrep, which is the Controller's system for putting together the budget.
- There will be losses in the City's levy due to appeals of AV.
 - AT&T has appealed their state assessed property, which will affect all the counties and result in a loss of approximately \$4 million county-wide.

[Clerk's note: A full printout of Exhibit A is on file in the Council Office with the original set of minutes.]

Chair Sanders asked Mr. Clifford to indicate how much the budget for Public Safety and Criminal Justice has grown. Mr. Clifford said that he does not have the exact statistics, but that he believes that the total budget for 1999 was approximately \$700 million and Public Safety and Criminal Justice was about \$300 million of the total. He said that the budget is currently approximately \$850 million and Public Safety and Criminal Justice is about \$430 million of the total.

Chair Sanders said that although civil employees have gone without a salary increase for three years, the City has paid increases in insurance premiums as a benefit to the those employees. Mr. Clifford said that the increase in insurance premiums has averaged around 15% of the cost. Chair Sanders asked if the payment of increased insurance premiums could possibly be more valuable to civil employees than a 1% or 2% wage increase. Mr. Clifford answered in the affirmative.

Councillor Nytes asked about the category of Child Services in the character expenditures of the budget. Mr. Clifford explained that Child Services is mostly done through Character 03 for the County side, but it is a separate budget that is not actually controlled by the City or the Council. However, it is appropriated and taxed and is a growing part of the budget, but it is spent separately. Councillor Nytes asked if salaries, pensions, benefits, and supplies would be included in that amount. Mr. Clifford answered in the negative and said that this is where 100% of the costs covered are for foster care, institutional care, and psychiatric evaluations for children.

Councillor Nytes said that the graph showing the revenues by source clearly shows that property taxes are only half of the funding needed for the City.

Councillor Nytes asked if child services expenses reflect the original appropriation for 2006 as outlined in the budget proposal. Mr. Clifford answered in the affirmative.

Councillor McWhirter asked why there is a large dip in the AV for 2003 and again in 2006. Mr. Clifford answered that the decrease in 2003 was the result of a number of appeals being quickly processed from the reassessment, and the decrease in 2006 was the result of the loss of Inventory AV.

Chair Sanders said that it looks as though the child services funding significantly increases over the next four years and asked if that information is based on the numbers entering the system. Mr. Clifford said that the numbers are based on the historical growth rate. However, Children Services is looking at alternative funding and ways to get additional Medicaid/Medicare money into the system.

Chair Sanders stated that in the past, the Council has attempted to bring agencies before them to look at what can be done about salvaging any unexpended balances or under-spending. She asked if there is going to be an effort to try to capture under-spending again and what type of under-spending can be expected from the various agencies. Mr. Clifford answered that it is normally attempted as a part of the budget that is submitted to the Council, and he is not sure if much under-spending has been captured at this time. Chair Sanders said that she is concerned that agencies will be driven further into even tighter budgets.

Councillor Plowman asked if Mr. Clifford has thought of how to remedy the financial shortfalls that the City and the County are facing. Mr. Clifford answered that there are several remedies being considered including:

- Possible savings on administrative costs between the Marion County Sheriff's Department and the Indianapolis Police Department.
- Possible savings as a result of the Council's approval of the merger of the Washington Township and Indianapolis Fire Departments.
- The hope of having another substantial year with revenue growth from the COIT.
- The pursuit of excise taxes believed to be owed by the State for several years of underpayment.

Councillor McWhirter asked if future percentages of excise taxes have been adjusted to reflect that the State is in agreement that the County has been shorted. Kobi Wright, Corporation Counsel, answered in the affirmative and stated that State Auditor Nass estimated that the City was shorted approximately \$13 million and that the future distribution should increase by about \$500 thousand to \$750 thousand per year.

PROPOSAL NO. 363, 2006 - enables the Controller to reserve a percentage of county agency funding out of the County General Fund

Mr. Clifford said that the County is falling behind in reconciliations to the County General Fund, but it has now been reconciled through December 31, 2005. He said that some critical questions need to be answered, such as how spending is trending versus what is planned for in the budget. Mr. Clifford said that the proposal will allow him to reserve the 2006 budget by no more than five percent of the County General Fund, to prevent the County from getting into a position where budgets have to be cut before the end of the year. He said that there may still be places where additional funding may be required. He said that there is some good news on the County General side with collections of fines and fees.

Mr. Clifford said that the advantage of reserving the budget is to prevent the need to come back before the Council to decrease appropriations. His intent is not to reserve any agency, but to have the ability to move quickly if it is discovered that the General Fund Balance is not sufficient to handle all of the 2006 appropriations.

Chair Sanders asked if the five percent is foreseen to apply across the board, or if agencies will be assessed differently. Mr. Clifford answered that agencies will be assessed, as there are some smaller agencies that could not even afford one percent. He said that some agencies have anticipated projects that have not been completed and may have some funding that can be reserved. For example, the courts had funding for the new drug court for the year, but that court has not opened yet due to construction issues. He said that the two biggest budgets on the county side are the Sheriff and the courts, which are also the two agencies that are involved with jail overcrowding and crime management.

Councillor McWhirter said that she has a problem with the proposal, as it states in the second "Whereas" that the County General Fund has not been reconciled, yet Mr. Clifford mentioned that it has now been reconciled. Chair Sanders said that it was stated that it has been reconciled through December 31, 2005, but there is still work to be done through June, 2006. Mr. Clifford said that wording of the proposal can be changed to reflect that the reconciliation of the County

General Fund is not current. Mr. Clifford said that it is still important for this resolution to be approved even if that section is taken out, because of the potential shortfall for revenues and the fact that spending trends in the County are unknown.

Councillor Plowman asked what the negative aspects of the proposal will be. Mr. Clifford said that the negative aspect is that anyone that has their appropriations reserved will not be happy. Councillor Plowman asked if Mr. Clifford has spoken with any agency heads. Mr. Clifford answered in the negative, but stated that all of the agencies are aware of the budget issues, and he does not believe that anyone believes that he is being irrational. He said that the consequences of not allowing the proposal is that he returns in the middle of or immediately following the budget process to ask the Council to cut budgets. He said that he would like to reserve budgets to ensure that enough money is available so that there are not any layoffs toward the end of the year. He said that his office may have a broader perspective of where the immediate needs are. Mr. Clifford said that last year there were a number of agencies very upset about year-end cuts to their budget, and he believes that by doing this now, he will not have to come back with cuts but rather transfers between characters.

Councillor Plowman asked if agencies are expected to stay within their budgets. Mr. Clifford answered in the affirmative, and stated that last year the revenues came in lower than what was budgeted. He said that he would like to have more of a rational approach this year so that agencies have the opportunity to plan for where money can be spent. He said that about 98% of the property tax levy was collected, which is 50% of the total tax base. This year could be worse, with appeals from AT&T, Rolls Royce, and other big companies, as well as outstanding appeals. Mr. Clifford said that this proposal gives the Controller the opportunity to prepare for some cushion toward the end of the year to make decisions on what can and cannot be spent. He said that he is not asking to reduce any budgets or spending, he is simply asking to reserve the budgets so that there can be an idea of whether or not there is enough money and where the money is needed most in moving toward the end of the year. The Juvenile Center and the jail are probably two of the primary needs for 2006 and 2007.

Councillor Nytes said that a statement in the ordinance says that the Controller's Office is not able to determine the County Fund balance or run financial reports to County agencies. She asked if the Controller's Office has access to go into the system to look at the information. Mr. Clifford answered in the negative, and stated that because the County Fund balance is reconciled at the end of the year, the Controller cannot get a picture of where the City is as of June 27, 2006. He said that some of the problems will be alleviated with the reconciliation, but he is unsure of how accurate the balance is as of June 27, because the information is not current. Councillor Nytes said that it would be great if everyone would slow down and hold back at the request of the Controller, but she guesses that most agencies already feel that they do not have enough money to begin with. She said that she believes that the Council should give the Controller some type of official power to restrict spending. She said that she would like to hear from the Auditor as to what is going on with the reports.

Marty Womacks, Marion County Auditor, said that she understands that the budget cuts over the last two years are part of the reason behind the proposal. She said that her staff is down ten

people from what it was two years ago, and she has not been able to replace those people because she does not have the budget to do so. She said that her staff has been doing the best that they can and working long hours, and will be working very hard over the next few weeks to get up-to-date information and give the Controller the necessary reports.

Chair Sanders asked if there was any training or retraining that needed to be done for the staff completing tasks relative to the reconciliation process. Ms. Womacks answered in the negative and stated that the people inputting data into the FAMIS system have been doing it for many years. She said that there were some changes on the County side regarding the new function of purchasing, which has taken some time for people to adjust. Chair Sanders asked if Ms. Womacks sees any problem with getting the reconciliation completed between now and when the budget has to be introduced. Ms. Womacks answered in the negative.

Councillor Nytes asked how the completion of the financial reports that are usually due June 30th is coming. Ms. Womacks said that the City is in charge of that this year because of the statutory changes, but the Auditor's Office is working with the Controller's Office. Councillor Nytes asked if the Controller will have what is needed to do the County report by June 30, 2006. Ms. Womacks answered that the Auditor's Office is planning to ask for an extension. Mr. Clifford said that now that the December 31st balance is complete, the Controller's Office is looking at trying to give a guesstimate of what the actual balances are as of June 30th. He said that he does not anticipate that the last six months will be completed, but he is looking at alternatives, which is why he would like to reserve some of the fund balances because he believes that there is a larger margin. Mr. Clifford stated that he does have the ability to reserve budgets for city agencies and departments, but the Auditor never had that power when she was over the budget for County agencies. He said that this proposal would give the Controller's Office the ability to better control the budget.

Councillor Nytes said that she believes that this would be a smart step early on while there is still time to make adjustments, but she assumes that the Controller cannot do this without the Council's approval because there are so many elected officials on the County side. Mr. Clifford said that County officials will not like this change, but he feels that they understand. Councillor Nytes asked if Mr. Clifford plans to reserve a large percentage of the budgets. Mr. Clifford answered in the negative, and stated that he may not be able to reserve anything for some of the budgets, as most of the agencies do not have a very sufficient budget. He said that he will look at where there may be pockets of money to try to reserve.

Ms. Womacks said that she has been working very closely with Indiana Bell (AT&T) regarding their abatement, which has taken place in every county in Indiana. She said that she is working with them so that the entire \$9 million that is owed over a three-year period will be worked out so that the 2005, paid in 2006 amount will be deducted from the fall installment, and then a credit for the balance will be given over a number of years in order not to have such a huge impact on the units of government. Chair Sanders asked if Marion County owes the entire \$9 million. Ms. Womacks answered that it is for all taxing districts throughout the county. For example, Indianapolis Public Schools' (IPS) share would be \$1 million. She said that she tries to work with companies when this happens, because the County may have years in arrears to pay

for, and the companies are entitled to interest from the date the original tax bill was due. She has found that companies want to be good corporate citizens and are willing to work with the County. Chair Sanders said that she would appreciate it if Ms. Womacks kept the Committee informed as to what is going on with the abatement and the decisions that are being made.

Councillor Nytes said that she was thinking that the increase in the COIT could cover the abatement, but realized that the abatement is split among all units of government, such as schools, libraries, and Health & Hospital Corporation. She said that many of the school districts will also be hit this year because of the loss of Inventory Tax and do not have the added COIT available. She said that an impact such as this is pretty big and may communicate to the community an understanding of the layoffs of teachers and other cuts.

Councillor McWhirter asked what reserving the budget would actually mean. Mr. Clifford provided the example that if the Sheriff had a Character 04 budget of \$1,000 for automobiles, the FAMIS system has a tool that has the ability to only allow 98% to be spent and the other 2% reserved. Money is not taken away from the appropriation made by the Council; it simply reserves it until funds are sufficient, and then the reserve will be released. Councillor McWhirter said that she is concerned that the Controller may feel that a budget needs to be reserved, but the Council may not agree; yet, the Controller would have the ability to make the call. Chair Sanders said that the Controller currently has authority for the day-to-day operations of the budget, and by the time the Council would find out that a particular budget has been overspent and could not be reserved for other spending, it would be too late.

Councillor McWhirter stated that in the past the Council raised the COIT and dedicated the first 1% to large County agencies. She asked how the 5% reserve would affect the increase that was given to those agencies to do better business. Mr. Clifford said that it should have very little impact, because the majority of that money is likely already committed to salary increases and the drug court, which has not yet been completed. He said that he would not unilaterally reserve a budget without working with the agencies to determine where money can be held or particular tasks put off until the next budget in order to make it through the remainder of the year. Councillor McWhirter asked what occurs if Mr. Clifford and an agency have a difference of opinion. Mr. Clifford said that he is sure that the Council would hear from that agency.

Councillor Talley asked about Mr. Clifford's current ability to reserve budgets for the City. Mr. Clifford said that the City has had fund balances for the last six or seven years because of the ability to reserve the budgets, but none of the budgets have been reserved yet for this year. Councillor Talley said that he understands the need for this tool, as the Controller is responsible for the upper management of the budget for the entire corporation.

Councillor Nytes commented that though elected officials or county agencies are responsible for their budgets and may be doing the most careful job of monitoring their spending, they have no idea at what percentage the revenue is coming in. She said that if something like this is not done, it could result in a situation where an agency needs to spend money for something and there is no money at all to be spent. Mr. Clifford said that he believes that this is an important tool to use until fund balances can be restored on the County side.

Councillor Talley moved, seconded by Councillor Nytes, to amend the second “Whereas” of the proposal to reflect that the County Auditor controls all access to the FAMIS accounting system for the County, and the County General Fund at this time is not current. The motion carried by a vote of 5-0.

Councillor Nytes asked if Section 135-299 can be altered to require the Controller to notify the Council during any budget year when he determines that a reserve needs to be applied. Mr. Clifford said that he would be happy to comply. Councillor Nytes said that she believes that would allow the Council to be prepared to address any concerns expressed by agency heads.

Councillor McWhirter asked if there is a time limit on the proposal or if it can be cleaned up and brought back to the Committee. Mr. Clifford said that there is only one meeting in July, and then the budget process begins in August.

Councillor Nytes moved, seconded by Councillor Talley, to amend Section 135-299 to add a sentence at the end of the paragraph that states: “The Controller shall notify the Council prior to taking such action.” The motion carried by a vote of 5-0. Councillor Nytes said that this addition is not for the Controller to obtain permission from the Council to take action. It is simply a notification that specific reserves will be taken.

Councillor Plowman asked Ms. Womacks if any agency heads or elected officials have spoken with her about the proposal. Ms. Womacks answered in the negative. Councillor Plowman asked Ms. Womacks how she feels about the proposal. Ms. Womacks answered that she is not happy, but realizes that the financial situation is tough and feels that it could work out if the Controller is willing to communicate with the agencies and elected officials. Councillor Plowman said that he feels that elected officials have a responsibility to the voters and should be held accountable for keeping their budgets. Chair Sanders said that she understands Councillor Plowman’s concern, but it must be understood elected officials do not have the whole picture, and someone who has that picture must oversee activities. Councillor Nytes said that the system is designed for officials to provide services and spend money, not for raising or collecting money. Therefore, they do not have access to information about revenues coming in.

Steven Dyson, Deputy Accounting Auditor, said that he would like to bring the Committee’s attention to the second sentence of Section 135-299. He said that currently if agencies or the Council request that budget transfers be made, those requests go through the Office of Finance and Management and then the Auditor’s Office posts those changes to the FAMIS system. He asked why the Controller’s Office would need to change this process and obtain access to the system to perform the changes. Mr. Clifford said that as appropriations or changes in appropriations are made by the Council, the Auditor’s Office is not necessarily making the changes right away. The Controller’s Office has had issues, primarily with grant reports, where final payment cannot be released because there has not been an adjustment for additional appropriations to spend money. Mr. Clifford said that this is simply to allow the Controller’s Office to deal with the budget aspect in a timely manner.

Councillor Nytes asked if the transactions in FAMIS are coded to reflect who made entries and if they are easy to track. Mr. Dyson answered in the affirmative, but stated that it is more difficult for the Auditor's Office to detect problems if they were not the ones who entered the data into the system. Councillor Nytes said that she is concerned that the Auditor's Office is overwhelmed with trying to get everything done; therefore this seems to be good assistance for the Auditor's Office.

Councillor Talley moved, seconded by Councillor Nytes, to forward Proposal No. 363, 2006 to the full Council with a "Do Pass as Amended" recommendation. The motion carried by a vote of 3-2, with Councillors McWhirter and Plowman casting the negative votes.

CONCLUSION

With no further business pending, and upon motion duly made, the Administration and Finance Committee of the City-County Council was adjourned at 6:35 p.m.

Respectfully submitted,

Joanne Sanders, Chair
Administration and Finance Committee

JS/nsm